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WEEKLY SUMMARY



Number 86

20 JAN 1950

Document No. 001

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Class. CHANGED TO: TS S O

DDA Memo, 6 Apr 77

Auth: DDA REG. 77/703

Date: 31-1-78 By: 013

F-10

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C O N T E N T S

	Page
HIGHLIGHTS	1
WESTERN EUROPE	2
EASTERN EUROPE	7
NEAR EAST - AFRICA	9
FAR EAST	12
WESTERN HEMISPHERE	15
ARTICLE	
The British General Election	16

SECRET

H I G H L I G H T S

The East-West struggle in Western Europe was brought into sharper focus during the week as the USSR reaffirmed its refusal to reach early agreement on an Austrian treaty and as plans developed for a coordinated Communist attack to disrupt shipments under the Mutual Defense Assistance Program (see page 5). Meanwhile, the development of more cordial relations between France and Germany was threatened by continued French insistence on obtaining long-term leases on Saar mines and railways (see page 2).

The Chinese Communist decision to seize US installations in Peiping after explicit warning that such action would result in the withdrawal of all US officials from China, in addition to indicating that the Communists no longer regard US recognition as essential to the success of the new regime, may have been made as a token of fealty to the Kremlin (see page 12). Meanwhile, the nations of Southeast Asia remain lukewarm toward following the lead of those Western Powers that will probably accord de facto recognition to the Bao Dai regime in Indochina following expected French ratification of the 8 March agreements for the transfer of sovereignty (see page 13).

SECRET

W E S T E R N E U R O P E

GERMANY

Saar Dispute The achievement of friendlier relations between Germany and France will be retarded by continued French insistence on obtaining long-term leases on Saar mines and railways. Growing anti-French sentiment in Germany over the Saar issue, as well as over other French actions which are deemed to run counter to German interests, will make it increasingly difficult for Chancellor Adenauer to carry out his generally pro-French policy which he believes essential for the attainment of Germany's domestic and foreign aspirations. Although Adenauer is not likely to be strongly influenced by attacks on his foreign policy from the Social Democrats and the parties of the extreme left and right, he may gradually exploit this sentiment to strengthen later demands for a Saar plebiscite.

Trade Policy Continuation of West Germany's unfavorable trade position with Western Europe may soon force the West German Government to renounce some provisions of recent agreements for trade liberalization. Such a move would be a serious setback to ECA efforts toward European economic integration. In the last quarter of 1949, following West Germany's action to eliminate restrictions on trade to a degree exceeding that of other Western European nations, German exports to Western Europe, instead of exceeding imports, were \$11.3 million less than imports. These trade deficits are rapidly approaching the level at

SECRET**GERMANY**

which, according to existing agreements, they must be settled in dollars, thus adding to West Germany's balance of payments burden. Unless other Western European nations purchase large quantities of West German goods, or adopt reciprocal trade liberalization measures, the German Federal Republic may be forced to abandon its leading role in trade liberalization and re-impose restrictions on foreign trade in order to restore the balance between exports and imports.

FRANCE

Labor Demands Current labor demands for a second cost-of-living bonus pose no immediate threat to the Bidault regime. The Socialists will remain in the coalition pending the outcome of Bidault's efforts to obtain Parliamentary approval by 1 February of the collective bargaining bill and are likely to adopt an attitude of compromise in view of Bidault's authorization of a 3,000 franc bonus to those categories of workers which did not receive the bonus granted in November 1949. The Socialists will probably renew their threats to withdraw from the government, however, if Parliament fails to pass the collective bargaining bill by 1 February.

Housing Program Continued failure of the French Government to institute an adequate housing program, which is not likely to reach even the planning stage during the next few months, will contribute to social and political unrest already aggravated by intensified pressure for wage increases. Of the one million dwelling units

- 3 -

SECRET

SECRET**FRANCE**

estimated in 1947 to require urgent replacement and the four million judged unsatisfactory, only about 160,000 will have been rebuilt by the close of 1950, and a considerably smaller number will have been replaced. Private financing for a housing program will continue to be negligible in view of low rent ceilings, and public financing is blocked by the Government's investment policy, which emphasizes the modernization of basic industries primarily in an attempt to expand exports and balance foreign payments accounts. Although the Monnet Plan for modernization of the French economy originally made generous allowance for a housing program, French officials responsible for public investment expenditures (which are financed partly by ECA franc counterpart funds) have virtually neglected housing despite the important relation of worker welfare to increased production. The non-Communist left will become increasingly critical of the Government's investment program, a trend which, together with growing labor unrest, may undermine the program unless the Government can find some means of stimulating a more extensive housing construction effort.

African Defense Recent maneuvers in French West Africa revealed glaring defects in French military preparedness. Little progress had been made toward unification and development of French military forces in the area: materiel was scarce and obsolete; staff work was outdated; and the operations were marked by a spirit of defeatism reminiscent of French military opinion and behavior in 1940. Because the population of French West Africa is predominantly backward politically, economically, and socially, the area is ripe for Communist exploitation. Continued French military weakness and ineptitude would increase the potential of the large Communist-slanted African Democratic Rally to instigate disorders and weaken French control over this strategic area.

- 4 -

SECRET

SECRET

ITALY

Labor Disorders The recent disorders at Modena reflect a growing deterioration in relations between labor and management which may cause further outbreaks of violence, make it more difficult for non-Communist trade unions to avoid supporting the Communist-dominated General Labor Confederation, and obstruct the creation of a single, effective non-Communist labor organization. Management, heartened by the steady weakening during the past year of the Communist hold on organized labor, is resorting more and more to unilateral action in defiance of labor demands. Moreover, the Government, aware of its increased ability to make effective use of the police, is making no serious effort to discourage strikes, in the belief that they will fail and that their failure will be a victory for the Government. Actually, continuation of this trend would enhance the prestige of the Italian Communist Party and diminish popular support of the Italian Government.

GENERAL

Port Strikes Communist efforts to disrupt shipments under the Mutual Defense Assistance Program (MDAP) to ports of North Atlantic Pact countries will probably not obtain sufficient worker support to be generally effective. The Communist campaign against MDAP is a coordinated effort of the World Federation of Trade Unions (WFTU) and the World Peace Partisans Committee. The Communists hope to: (1) organize strikes in North Atlantic ports and possibly even to damage cargoes; (2) disrupt transport on the railroads servicing these ports; and (3) promote extensive sympathy strikes in the transport industry. The

SECRET

effectiveness of these strikes and demonstrations "in defense of peace" will depend primarily upon the degree of support received from non-Communist dockers and transport workers. Although WFTU funds and organizers may increase Communist influence, the rank-and-file French and Belgian workers will still be reluctant to follow Communist directives and to sacrifice employment on an issue affecting national defense. The recent anti-strike vote of the French dockers in Cherbourg and Saint Nazaire reflects strong opposition to Communist-inspired strikes on this issue. Moreover, this opposition will probably grow as the anti-Communist International Transport Workers Federation steps up its drive to organize local dockers committees, and as counter measures by the French and Belgian police become effective.

- 6 -

SECRET

SECRET

E A S T E R N E U R O P E

Yugo-Greek Accord The early restoration of rail traffic between Yugoslavia and Greece, which has been made more feasible by the renewal of Greek rail service from Athens to the Yugoslav border, now apparently depends only upon agreement between the railroad authorities of the two countries and upon completion of the war-destroyed bridge on the Yugoslav line. Although political difficulties between the two countries have been continuous since the end of World War II, even after Yugoslav withdrawal from the Greek guerrilla adventure, Yugoslav representatives recently expressed the opinion that no obstacles stand in the way of a purely commercial agreement governing transit traffic from one country to another. In addition to the material advantages to Yugoslavia resulting from access to the Yugoslav Free Zone at the Greek port of Salonika and the establishment of another important commercial link with the West, the Yugoslav strategic position would be substantially improved in the event of an increase in Cominform pressure. For Greece, a direct rail connection with western and central Europe would stimulate Greek trade, lessen dependence upon ocean transport for European trade, and at least lay the groundwork for an improvement of Greek-Yugoslav relations.

FINLAND

Electoral Results The Finnish people in the recent presidential elections responded to Soviet threats and intimidation by re-electing the pro-Western Juho Paasikivi by the greatest majority ever given a Finnish presidential candidate. Soviet pre-electoral pressure, in fact, was

- 7 -

SECRET

SECRET

FINLAND

largely responsible for uniting all non-Communist parties except the Agrarian in support of a single candidate. Few significant changes occurred in relative party strengths. Social Democratic losses amounting to approximately five percent do not necessarily reflect a corresponding decline in popular support, but can be attributed to a variety of factors peculiar to this presidential election. Similar considerations attach to the slight gain in the Communist vote and the decline in the Agrarian vote. The composition of the Diet, however, remains unchanged and although the Communists will point to their large vote as justification for representation in the Cabinet, former Premier Fagerholm will probably head either another all-Social Democratic Cabinet or a coalition composed of Social Democrats and members of the minority rightist parties.

SECRET

SECRET

NEAR EAST - AFRICA

INDIA - PAKISTAN

Kashmir Dispute Neither the Colombo Conference of Commonwealth Foreign Ministers nor increased pressure on India by the US, UK, and Canada has improved prospects for an early settlement of the Kashmir dispute. Indian Prime Minister Nehru is apparently as obdurate as ever in opposing an over-all plebiscite for Kashmir, and is even suggesting that most of the disputed area be partitioned and a plebiscite limited to the Vale of Kashmir. By protesting that it favors a continuation of mediation of the issue, India merely hopes to keep the issue in abeyance until Nehru's partition plan can be arranged. Meanwhile, McNaughton, Canadian representative on the Security Council, will keep himself available as mediator, but will probably eventually be forced to report his failure to the Security Council. The SC will then invite India and Pakistan to make statements before the Council, and at this stage only a major change in Indian or Pakistani policy would bring the SC any nearer to a settlement of the dispute.

SAUDI ARABIA

Two Crises The Saudi Arabian Government, faced with temporary insolvency and a possible small-pox epidemic, has thus far shown little disposition to take the firm action these problems require. With its supply of ready cash so low that obligations due this month cannot be met, the Government has taken the obvious step of attempting (thus far in vain) to obtain a substantial advance on royalties

- 9 -

SECRET

SECRET**SAUDI ARABIA**

from the American-Arabian Oil Company. Although Saudi officials are also making some attempt to cut down on expenditures, there is no indication that a sustained attack on the careless spending habits and slipshod accounting which produced the present crisis will be forthcoming. Saudi officialdom has meanwhile shown little concern over an outbreak of smallpox in Jidda which threatens to develop into a full-scale epidemic. Although the Government, after two weeks of hesitation, has finally authorized the use of vaccination teams in the area, the cooperation to be expected of the population is doubtful, and the Saudi Government may have to be persuaded to appeal to the World Health Organization for help.

IRAN

Cabinet Shakeup The recent shakeup in the Iranian Cabinet-- although notable for the replacement of the inept Hekmat as Foreign Minister, the termination of General Ahmadi's long occupation of the Ministry of War, and the inclusion of three relatively youthful newcomers--is apparently only a temporary expedient. While the Shah believes that Iran's present economic and social problems require a more forceful man than Prime Minister Saed at the helm, the latter will probably be allowed to retain the premiership long enough to steer the attempt to get the controversial Anglo-Iranian Oil Company agreement ratified by the Majlis. In his search for a replacement for Saed, the Shah may be giving serious consideration to Chief of Staff Razmara, who apparently desires the post. Razmara's already strong position has been improved by the appointment of General Yazdan Panah as Minister of War to replace General

SECRET

IRAN

Ahmadi, who had long been critical of Razmara. The Chief of Staff also benefits by the recent removal of Marshal Shahbakhti from the military governorship of Azerbaijan, which Razmara has long sought. Despite these developments, there is as yet no substantial indication that the Shah supports Razmara's ambitions, and it is unlikely that the Shah would agree to his selection as Prime Minister unless convinced that no civilian was available capable of putting through the drastic measures required to alleviate Iran's present difficulties.

- 11 -

SECRET

SECRET**F A R E A S T**

Colombo Conference The recent Colombo Conference of Commonwealth Foreign Ministers, called primarily to develop mutual understanding rather than to adopt specific policies, concentrated its activity on a discussion of the problem of the spread of Communism to South Asia. It was generally agreed that the fight against Communism required an economic development program designed to raise living standards throughout the area, and a consultative committee was appointed to make recommendations. Although no immediate results are expected, the Asian dominions at least now appear to consider the fight against Communism as necessary for the protection of their own interests. India's coolness toward anything resembling a military alliance, however, barred any action to form a regional association against Communism. The Ministers generally agreed that denial of recognition was no longer of any value as a means of combatting Communism. On the other hand, the UK was unsuccessful in its efforts to persuade the other countries of the urgent need for encouraging the Bao Dai regime in Indochina by granting early de facto recognition. During the meeting, the UK, India, Pakistan, and Ceylon agreed to grant a small internal loan to Burma. The Conference expressed a unanimous desire for an early Japanese peace treaty and appointed a committee to study the many unsettled details.

CHINA

Peiping Crisis Although the Chinese Communist seizure of Western "military installations" in Peiping was primarily designed to exert pressure on non-recognizing Western nations, the action has wider implications. First,

- 12 -

SECRET

SECRET

CHINA

occupation of the former US Marine Barracks, after explicit warning that all US officials would be withdrawn from China in consequence, indicates that the Communists no longer regard early US recognition as essential to the success of the new regime. Second, the consequent withdrawal of US officials will complete the progressive reduction in the number of US observation posts in China which has been going on since 1947. The prospect of profitable commercial relations with the UK and a possible promise of extensive trade and credit relations with the USSR may well have convinced the Chinese Communists that their program of reconstruction can succeed independent of the US. Even if assurance on this point were lacking, however, the action might well have been taken as a token of Chinese Communist fealty to the Kremlin, since the elimination of all US official influence can be expected to assist the USSR considerably in the consolidation of Soviet gains in China.

INDOCHINA

Bao Dai Recognition International acceptance of the Bao Dai regime in Indochina continues to depend primarily upon French action in ratifying the 8 March 1949 agreements for a transfer of sovereignty. French Assembly approval of the agreements, hitherto delayed largely as a result of Socialist reluctance to back such a transfer of limited sovereignty, now appears likely by 1 February. De facto recognition of Bao Dai by the UK and most other western powers will probably follow soon afterwards. Even then, however, the Southeast Asian nations will be reluctant to follow suit. In general, Thailand, Indonesia, Burma, the Philippines,

- 13 -

SECRET

INDOCHINA

and India, though aware of the danger of Communist control of Indochina, are far from convinced that France intends ultimately to grant full independence to the Bao Dai regime or that the regime enjoys a large measure of popular support and satisfies the nationalist aspirations of the Vietnamese.

- 14 -

SECRET

SECRET

WESTERN HEMISPHERE

BOLIVIA

Revolt Fails The Bolivian Government's prompt action in declaring a state of siege and rounding up known MNR leaders has apparently prevented a revolt at this time, but the friction within the government between the army commander-in-chief and civilian leaders will continue a situation which may be exploited more successfully by MNR leaders at a later date.

As in the past, future success of MNR-led efforts will depend to a large extent on its ability to win military support. Regardless of MNR activities in the future, prospects for a continuation of the present all-civilian government are poor because the military will probably continue to increase its influence in the government.

BRITISH HONDURAS

Civil Disorders Current demonstrations against the government may develop into a general strike accompanied by considerable violence. Resentment against the government is increasing as a result of: (1) the rising cost of living following revaluation of the local currency; (2) the imposition of price controls, which has infuriated the merchants; and (3) the failure of the British to take effective steps to alleviate the colony's acute economic distress. Although British security forces would be able to suppress any disorders which might occur, considerable anti-British sentiment would result. Such disorders would also provide Guatemala with propaganda with which to press its claims to the territory.

- 15 -

SECRET

SECRET

THE BRITISH GENERAL ELECTION

The outcome of the British election on 23 February will not have a serious direct effect on the security of the US. Whichever party forms the government, the maintenance and development of close and harmonious relations with the US will remain a fundamental policy. Britain's opposition to Soviet expansionist aspirations will be unaltered, and, subject to pressures arising from the state of economy, the main lines of foreign and defense policies will continue virtually as at present.

The election will be fought on domestic issues. It will determine either that a Labor Government, avowing a creed of democratic socialism and drawing its main support from the working class, shall be allowed to consolidate and probably to continue the considerable social revolution which has been wrought in Britain during the past decade; or that a Conservative regime shall call a halt to the revolutionary process and, without trying to undo much of what has been done, shall nevertheless carry on the government in the future according to somewhat more traditional principles. For the British voter this decision is momentous, and the election campaign will probably be waged with vigor and even with bitterness.

The most likely possible results of the election are: (1) a safe working majority for Labor; or (2) a safe working majority for the Conservatives; or (3) a narrow, indecisive majority (less than 40 or 50 seats) for either party. From the standpoint of the US either of the first two results would be preferable to the third. With a weak government in power, political maneuvering would continue in preparation for another election.

SECRET

at an early date, attention and energy would be diverted from the formation of necessary constructive economic policies, and Britain would lose international prestige.

Between the two major parties, US interests might be slightly better served by the return of Labor, though the balance is nearly even. A Labor Government could more surely maintain internal stability and neutralize Communist agitation among the working class at a time when living standards may have to be lowered. The Attlee Government has on the whole been easy to deal with; there is no evidence that a Churchill Government would be easier, and there is reason to suspect that it might be more difficult. Incessant Communist propaganda concerning Anglo-US "capitalist-imperialist-reactionary" policies carries less weight in the world while Britain is under a Socialist government; conversely, joint Anglo-US positions are less suspect among leftist-inclined communities than exclusively US policies. Among newly independent states, and to some extent in colonial areas, the British Laborites enjoy a higher degree of trust than the frankly "imperial" Tories and are, therefore, more useful allies in the ideological struggle for the minds of backward peoples. On the other hand, the non-Socialist doctrine of the Conservative Party is somewhat more acceptable to public opinion in the US, and the Conservatives might infuse new vigor into the British economy by altering fiscal policies and by relaxing the rigidities of government control in those few places where relaxation is feasible. They might also treat the diplomatic problems of Western Europe with more skill and flexibility.

Although the popular vote on 23 February will probably be close between Labor and Conservatives, the House of Commons seats will not necessarily be as evenly divided;

- 17 -

SECRET

SECRET

the British electoral system normally magnifies a narrow majority in popular votes into a sizeable majority in Parliament. Prediction of the outcome is difficult; many voters are undecided and will remain so through most of the campaign. Recent polls have given the Conservatives a substantial edge among those voters who have made up their minds. Labor is expected, however, to recover ground and to win enough of the undecided vote to give the Party a satisfactory working majority in Commons.

- 18 -

SECRET

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